

Forbes insights

Payments' Potential

How Payments Can Enhance
The Customer Experience
And Spur Innovation

IN ASSOCIATION WITH

J.P.Morgan



Preface

Consumer expectations are ever-increasing. In recent years, payments professionals and treasurers have become well accustomed to how globalisation and innovation are transforming an age-old human behaviour: making a payment.

As societies become more borderless and the concept of a store or marketplace is reinvented in the age of e-commerce, innovation in one region can quickly become the global norm.

You are either setting the innovation agenda, or you are playing catchup.

The outbreak of the COVID-19 pandemic has put a very different face on what it means to live on a globalised planet. The conversations we had with 300 global executives took place before the pandemic, but the insights from those conversations are still as meaningful as ever—if not more so.

In *Payments' Potential: How Payments Can Enhance The Customer Experience And Spur Innovation*, J.P. Morgan and Forbes share unique findings from a survey of 300 global executives and insight into the ways businesses can:

- Provide more seamless and frictionless customer experiences
- Use consumer insights from payment data to spur growth
- Understand the impact of business model disruption on payment trends
- Grow beyond European borders to take advantage of international opportunities

Everything we have witnessed in recent months has confirmed the urgency of these priorities, as companies sharpen their focus on operational resilience and retaining customer relationships.

In turbulent times, we are committed to helping our clients navigate change, partnering with them on innovation and equipping them with the tools and capabilities to get closer to their customers.

With best regards,

SHAHROKH MOINIAN

EMEA Head of Wholesale Payments, J.P. Morgan

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Introduction

Customers want a superior experience where they can make the right payment at the right time and in the way that best suits their business or lifestyle.

82%

of European survey respondents say payment methods are important to provide the best possible customer experience (85% globally).

Once viewed simply as a transaction, payments have evolved into an important component of the customer experience, a revenue-generating business model and a primary way of boosting efficiency. But with this new mandate come immense opportunities: Companies that understand the paradigm shift better than their peers stand to gain a competitive edge.

Companies are being measured on their ability to provide whatever-whenever-wherever experiences. But providing those experiences can prove challenging for businesses in terms of extra complexity and cost—and that complexity generally increases when a business strives to provide its suppliers with the same seamless experience.

In a Forbes survey¹ of more than 300 executives worldwide, including 90 based in Europe, just about half say their company can deliver well on the overall customer experience. And the vast majority of them agree that payments are an integral part of that experience.

This report shares insights regarding:

- What customers are looking for in payments
- How data science can enhance security and accelerate business growth
- Ways to deal with multiple business and payment models
- The complexity of payments when expanding globally

As digital technology changes the way the world buys and pays, businesses need partners that can help them unlock more strategic value from payments—from boosting revenue and profitability to optimising customer experiences and global cash flow—while reducing the complexity that comes with providing payments that meet customers' expectations.

What Do Customers Want?

Having established the importance of payments to the customer experience, we must now ask: What is the payment experience that consumers—and thus businesses—are looking for?

It's safe to assume most businesses want their end-to-end revenue cycle (payment acceptance through reconciliation and posting) to be seamless for customers and easy to execute and manage.

The survey reveals that speed and ease of use are the most sought-after characteristics of payment systems. The ranking of what matters for businesses, with speed and ease on the top and fees at the bottom, confirms a huge shift in how businesses view payments. They are no longer a commodity, when what mattered most was cost, but are rather a valuable, differentiating feature of the customer experience.

This new approach is even more pronounced among European executives, who value ease of use more than executives globally (52% vs 45%) and consider fees a less important characteristic (14% vs 25%).

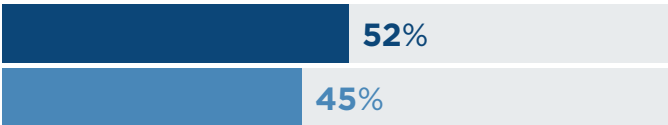
Making payments feel natural, seem invisible

Many of Europe's e-commerce companies are making the payment stage of the customer experience effectively invisible.² When payments are easy, customers are happy.³ Payment becomes a natural extension of ordering a product or service instead of being a process at the end of a purchase.⁴

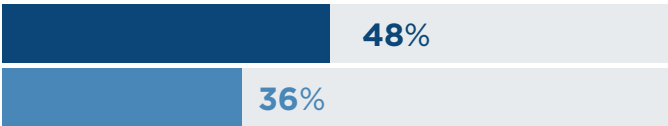
Executives responding to the survey chose three top characteristics of payment systems:

■ Europe only ■ All respondents

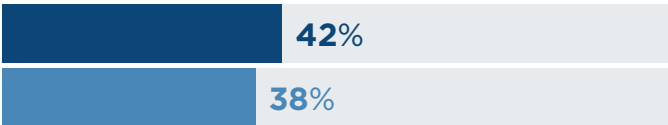
Easy to use, quick, frictionless



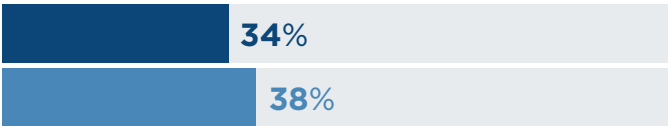
Ability to use internationally



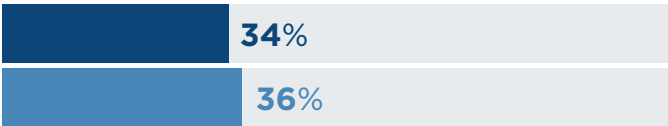
Security



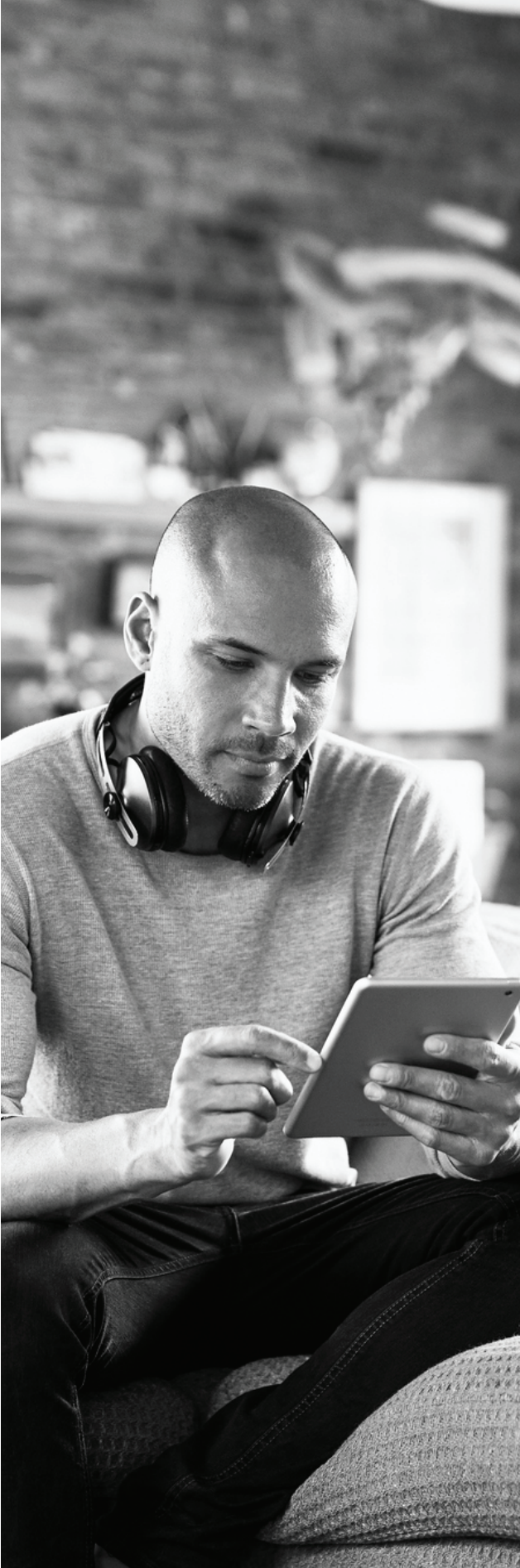
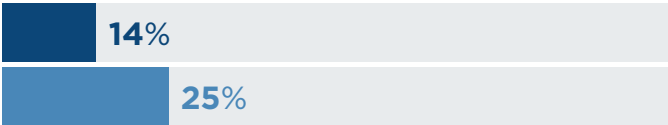
Stability



Tailored to customer preferences



Low fees



Perspectives On Payments



“The ‘always on’ payments ecosystem will reward companies that can create broader strategic value while harnessing global regulatory and technology volatility. We must be prepared for a world in which incoming payments are initiated anywhere, anytime, in any currency and through both established and emerging channels.”

SHAHROKH MOINIAN

EMEA head of wholesale payments,
J.P. Morgan

“Businesses need to think about payments in nontraditional ways. Payments should be an ecosystem that gets you closer to your customers and gives you better, direct insight to what they want.”

SARA CASTELHANO

EMEA head of payments and digital product,
J.P. Morgan Wholesale Payments

“Your payments data is a mine of information on approvals, declines, costs and fraud. It’s also about looking carefully at the performance of each element in your payments ecosystem, seeing if they can be improved, and understanding how each of those elements could be affecting your costs—not just the revenues that come through the door.”

BRIAN GAYNOR

Head of product and strategy, Merchant Services in Europe, J.P. Morgan Wholesale Payments

“Many of the world’s leading e-commerce merchants are making the payment stage effectively invisible. The shift in attitude that is driving these developments is to think of the customer experience as ‘ordering’ or ‘getting’ a product or service, rather than ‘paying’ for it. Take advantage of e-commerce opportunities by embedding this kind of customer-centric thinking in every aspect of your business.”

RAY MCDONNELL

Managing director, Merchant Services in Europe, J.P. Morgan Wholesale Payments

Payments' Untapped Potential

Insights from payment data boost business performance.

Unlocking the potential of payment data requires the ability to combine disparate acquiring and issuing data with technology and deep data-science expertise that can transform data into actionable insights. Tony Wimmer, head of data and analytics at J.P. Morgan Wholesale Payments, distinguishes between two different insights that can be gleaned from payment data: payment insights and consumer insights. Payment insights can help businesses with retaining customers as well as efficiency, while consumer insights can help with growth.

Data scientists at J.P. Morgan have developed proprietary artificial intelligence algorithms that scan payment data for actionable opportunities. "We are taking the headache out of the day-to-day management of this payment function," says Wimmer.

For payment performance, J.P. Morgan uses a three-step strategy to deliver actionable insights. First, algorithms monitor payment data to detect anomalies. Then monitored payment data is benchmarked against best-in-class performance levels. Finally, payment data is scanned for opportunities to enhance approval rates, processing costs, fraud mitigation and dispute resolution.

Consumer insights from payment data spur growth.

While using payment data for optimisation keeps the business engine running efficiently and helps retain customers, additional insights that can be gleaned from payment data can really rev it up.

"By connecting acquiring and issuing data, we can help merchants grow their business by delivering valuable insights into customer behaviours. Merchants can be better informed about store location decisions and which customer segments they have an opportunity to expand their reach and appeal with—relative to their peer group," says J.P. Morgan's Wimmer. "We also work with merchants to leverage payments data as an early warning system to track market share and wallet share over time."

The relevance of payment data is growing. By 2025, the market data provider Statista estimates there will be 75 billion connected devices worldwide⁵—refrigerators that restock themselves, cars that pay for fuel and tolls and so on—that will automatically generate payments, creating an explosion of entry points into a business and generating masses of new customer and payment data.

While there is incredible potential to tap into this data, J.P. Morgan's first priority is always to safeguard the privacy of consumers and clients. "We only share insights that are derived from de-identified and highly aggregated data with no references to specific individuals or businesses," says Wimmer.

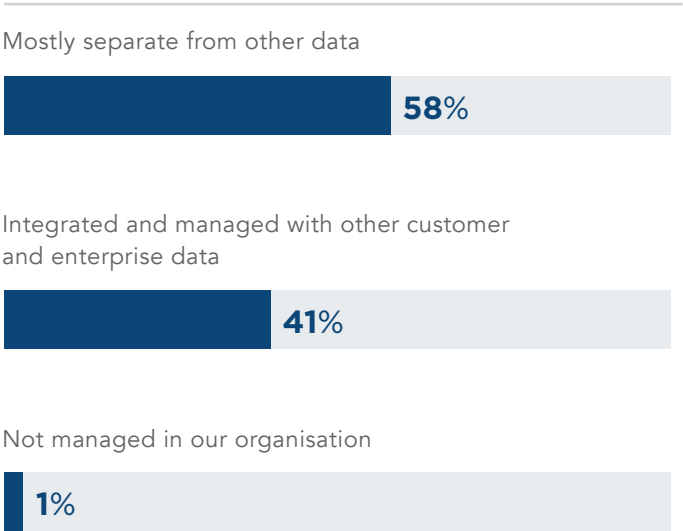
To take advantage of what payment data offers, companies must ensure that data is organised and transparent. Inefficiencies in payments, such as poor visibility into cross-border payments and challenges of reconciliation, should not persist in a future in which digital payments are the norm.⁶

Companies are beginning to recognise that payment data is a missed opportunity.⁷ The top characteristic they are seeking in a payment solutions provider is the ability to help them use the technology to access data and enhanced offerings.⁸ This characteristic is even more important for European companies (43%) than for companies globally (39%).⁹

According to the survey results, most European companies (58%) are managing payment data separately from other data, which means they are not able to combine it with customer-segmentation data or location data, for example. The way payment data is managed in Europe is similar to how it's handled around the world.¹⁰

However, more European companies are able to use transaction and payment data for customer segmentation (53% vs 42% for all companies surveyed).

How is payment data being managed in your organisation? (Europe only)



When used in a de-identified and aggregated format to meet the highest privacy standards, payment data can provide businesses with valuable insights. Understanding payment data helps businesses balance consumers' expectations for speed and convenience with the company's need to meet high security standards.

"In order to create a more frictionless payment experience for customers, our experience with many of the world's leading merchants shows that they now conduct their own transaction risk analysis, analysing various factors about a transaction to determine if it is fraudulent." says Brian Gaynor, head of product and strategy, Merchant Services in Europe, J.P. Morgan Wholesale Payments. "But this requires a host of data, such as where the customer is making the purchase, what type of product it is, as well as their purchase and payment history. So merchants are increasingly looking for help interpreting their own information, from acquirers and other partners."

These dual imperatives set a challenging goal for executives: to process as many transactions as possible—which requires speedy, frictionless solutions and multiple payment methods—without compromising security and privacy.

Financial institutions are vigilant about fraud when approving payments. The customer may have been hacked, had their card or identity stolen or not paid the bill, after all. But from a statistical point of view, transaction declines are often not warranted. Such "false positives" can lead to a one-time cart abandonment or even the permanent loss of a customer. Common false-positive scenarios include purchases made while traveling, unusually high-value purchases and close proximity to credit limit. Keeping false declines at bay is especially significant for businesses that rely on monthly subscription fees.

"As security has gotten stronger, false declines have grown," says Julie Ferguson, CEO of the Merchant Risk Council. "It's a really concerning problem for a lot of merchants, and they're losing revenue over it."

At the heart of maintaining the right balance between payment authorisation and fraud prevention is the ability to combine expertise in data science with a deep understanding of the payments industry.



of surveyed European executives who said security will rank as the top trend in payments over the next three years, compared with 38% globally.

The Evolutionary Bottleneck

Disruption in business models is disrupting payments.

New delivery and business models are disrupting business,¹¹ and the success of companies—and entire industries—depends on whether they keep up.¹² Consider how technology has transformed how people work, shop, consume media and book holidays.

The platform marketplace has become a ubiquitous business model, spurring manufacturers to build their own marketplaces and sell directly to customers. In fact, 46% of European executives who responded to our survey said they employ or plan to introduce a direct-to-consumer model in the next three years.

The direct-to-consumer model stands out in how it treats payments. In our survey, the largest group of direct-to-consumer executives believe that payments are an integral part of the customer experience. Since this model often involves commodity items such as razors, the convenience of the payment experience helps maintain customer loyalty.

“We see two standout impacts from how technology is disrupting payments,” says Sara Castelhana, EMEA head of payments and digital product, J.P. Morgan Wholesale Payments. “Firstly, the need to deploy digital tools at scale, which requires careful deployment through pilots and scaling up into broader use cases. Secondly, helping partners navigate business model changes such as direct-to-consumer and the broader umbrella of new approaches.”



of direct-to-consumer executives in the survey believe that payments are integral to customer experience.

The subscription services model—which carries the potential benefit of promise of recurring revenue—is being used by 37% of European companies included in our survey because its applicability is limited by the type of industry, product or service. The administration of the subscription model also calls for different types of data, customer and billing management than the business-to-business or business-to-consumer models.

While the idea of customer experience first gained traction in the business-to-consumer sector, the business-to-business sector now also has to contend with customer expectations. Business-to-business sales are more complex as they entail bigger orders and multiple layers of financial approvals at the buyer's company.¹³ But business-to-business customers are now expecting relevant business-to-consumer features as well. For instance, some business-to-business merchants are offering one-click payment approval.

Connected commerce models, such as connected home and car, may take longer to realise their full potential, with a quarter or less of survey respondents already employing them or planning to do so within three years. However, once customers become more accustomed to voice assistants and self-driving cars, the ease and efficiency of a connected car and home will most likely make them a more popular business and delivery model.

Payment method proliferation brings both opportunities and challenges.

Companies cannot succeed without competitive business and delivery models, which, in turn, cannot function without the right payment methods. Thus, regardless of business model, companies need to seamlessly embed relevant payment methods into the customer experience, something that a quarter of European survey respondents find challenging. Among the companies surveyed, different payment methods have been proliferating in addition to new business models.

Different customer habits and expectations, multiple technology-driven business models and numerous payment technologies aiming to address them have resulted in myriad payment methods.

According to our survey, European companies differ from companies worldwide in terms of the payment methods



they offer. They are ahead in offering mobile-first (51% vs 45% worldwide) and biometric authentication (43% vs 35%) but lag in digital wallets (37% vs 46%).

The joined-up view: aligning payment acceptance and cash management

Payment flow can be fragmented when processing is managed by multiple payment providers. And yet 42% of surveyed European executives say their company’s banking, payment and treasury functions are poorly integrated. It’s no wonder that the same group claims that one of its top challenges with emerging payment options is integrating them with banking solutions (38%).

As businesses grow, aligning payment acceptance and cash management strategies can streamline cash flow, optimise liquidity and improve the efficiency of outbound payments. Liquidity is the fuel for payment flows, so companies need to take measures to reduce the gap between cash on hand and debt obligations.

“As we navigate the uncertain post-COVID environment, the critical nature of business-as-usual liquidity management is in a much sharper focus. Resiliency and utility are more important than at any point in recent years,” says Shahrokh Moinian, head of wholesale payments EMEA for J.P. Morgan.

“Having full visibility of and access to payments coming in and going out is critical. These are not new ideas, but they reinforce the importance of comprehensive hygiene in every aspect of your cash flow strategy.”

A company’s success may depend on aligning payments with its treasury and finance strategies and working with partners that can help them do so.

When deployed with an agile mindset and a flexible architecture, technology can help businesses adapt to a continuously evolving global commerce landscape.

According to Mario Benedict, EMEA head of APIs and Open Banking, J.P. Morgan Wholesale Payments, “API integration will enable businesses to quickly adapt to new payment methods, new regulations and new consumer behaviours in their target markets.”

Which of the following payment methods do you currently offer? And which of these payment options are gaining in popularity among your customers? (Europe only)

	Currently Offer	Gaining in Popularity
Mobile-first payments	51%	17%
Biometric authentication	43%	18%
Contactless payments	42%	28%
Digital wallets	37%	21%
Tokenisation	36%	13%
Voice commerce/virtual assistance	31%	12%

42%

of European executives surveyed say their banking, payment and treasury functions are not well integrated.

Going Global: Payments And Local Expectations

Global business expansion makes payments more complex. To start with, different geographies favour different types of payments for cultural and socioeconomic reasons.

What, then, is the optimal way for companies to offer payment methods globally? Should they try to maintain a global standard or go as local as possible? Local options (42%) were the most popular choice among European executives surveyed.

Meeting local customer expectations is, however, a challenge. According to our survey respondents, European companies have a higher probability of meeting their customers' expectations in the European Union than in regions and countries outside the EU.

When it comes to payment solutions, how do you balance meeting local market needs and having uniform global processes? (Europe only)

We favour consistency and offer the same solutions and processes worldwide



We are in the middle



We favour meeting the needs of each market and offer processes and solutions accordingly



In which of the following regions do you currently meet your customers' whatever-whenever-wherever-when expectations?

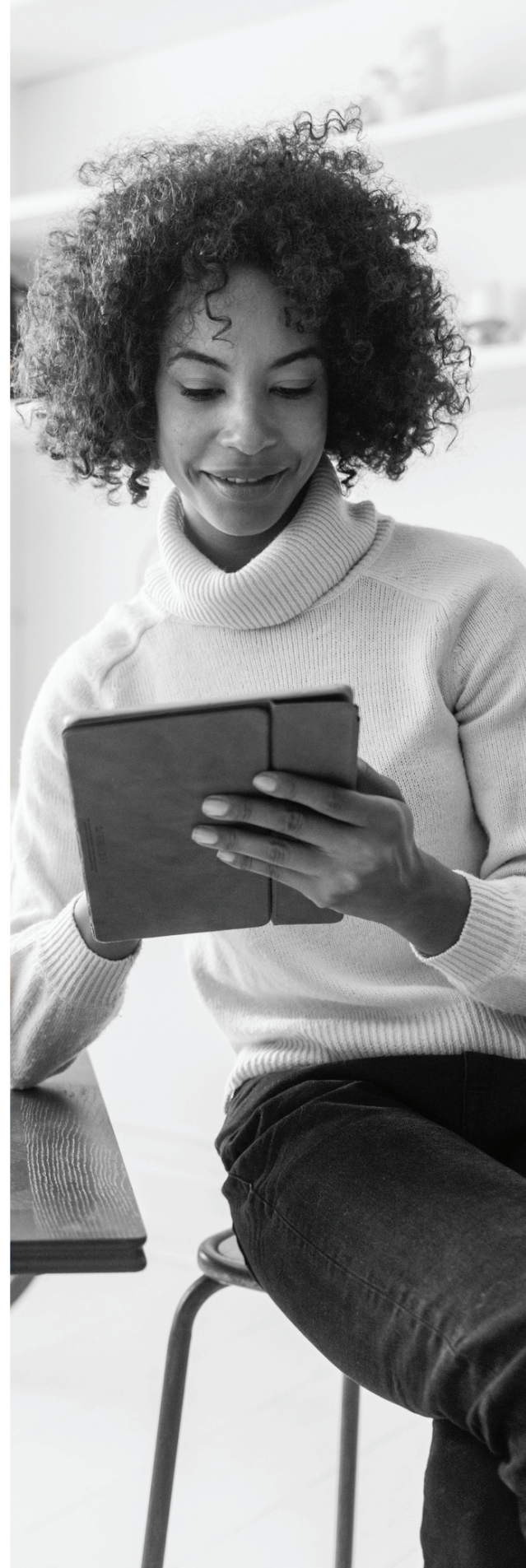
(Percentage of European executives who meet their customers' expectations in the following regions if they have a presence there)

European Union	94%
Middle East	94%
Other Europe	82%
United States	65%

A uniform approach is an elusive goal in payments.

Given the diversity across regions in customers' expectations, technology infrastructure and regulatory environments, companies are thus compelled to meet the local needs of each market, rather than try to impose a universal set of solutions. As a result, there are some region-specific payment options favoured in Europe, the Americas and Asia.

While European companies are mostly in sync with the rest of the world when it comes to predominant payment methods, there are some regional idiosyncrasies. For instance, European companies do not use certain virtual bank accounts that are very popular in Asia. Instead, they are more inclined to use SEPA (Single Euro Payments Area), a payment-integration initiative of the European Union.



Conclusion

Looking ahead with the right partner

Businesses need to tap into the huge potential of payments as part of the overall customer experience. They need to understand the complex landscape and the business benefits that the right payment methods can offer. Considering the complexity and fragmentation of payments, it is equally important to view payments in alignment with all other relevant functions and business lines.

The possibilities for new business models and payment options are growing with the development of advanced technologies. But with the growth of options comes the increased need to consolidate and select only the best partners. Businesses are recognising the importance of a versatile partner, as more than half of those surveyed are planning to consolidate their payment and treasury service providers.

An effective strategic payments and working capital partner helps clients meet their challenges no matter where they are on their treasury transformation journey, deploying expertise at scale while using the best available technology on a global level.

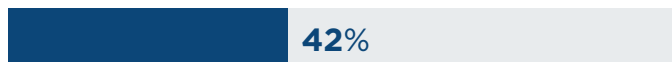
At the same time, security and data-privacy considerations make it more important than ever to partner with a trusted and well-established financial institution that helps companies realise the full potential of data in a privacy-compliant way. That applies to payment insights, which companies can use to optimise transaction flows—and even more so when payment data is used to generate consumer insights that help companies better understand their customer segments, expand their reach and drive brand awareness.

The survey reveals that European executives are on the right track, as they report that they will focus on streamlining the number of payment partners with whom they work, opting for seasoned and trusted brands.

53% of surveyed European executives are planning to consolidate the number of payment and treasury service providers they work with.

What will be the top trends in payments over the next three years? (Top five responses, Europe only)

Organisations will aim to streamline the number of their payment providers



Organisations will tend to partner/work with seasoned/trusted brands



Organisations will increasingly collaborate with fintechs



Organisations will focus on payment security



Organisations will focus on the management and integration of payment data



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CEO of the Merchant Risk Council

Methodology

J.P. Morgan surveyed 304 executives globally, including 90 executives from Europe. European executives represented a cross-section of major industries, such as retail, telecommunications, transport and travel.

More than half of European respondents (53%) were C-level executives (e.g., CEO, CIO, CMO and CFO), 19% were senior executives and vice presidents, and the remaining 28% were senior directors and directors.

They came from multiple functions: finance, digital transformation, payments, strategy and business development and general management.

All survey respondents came from companies with revenue of at least \$100 million, including 33% from companies with sales of \$1 billion or more. The survey sample included representation from the B2B, B2C, B2B2C and D2C models.

¹ Forbes Insights & J.P. Morgan, 2019: Payments' Potential Survey

² J.P. Morgan, 2019: How Should Merchants Take Advantage Of Mobile-Commerce Growth In Europe? Accessed April 2020

³ KPMG, 2018: Customer Experience Is Driving Change; Accessed April 2020

⁴ KPMG, 2018: Customer Experience Is Driving Change; Accessed April 2020

⁵ Statista: Internet Of Things (IoT) Connected Devices Installed Base Worldwide From 2015 To 2025; Accessed April 2020

⁶ J.P. Morgan, 2019: Go Deep On Data and Grow Your E-commerce Business; Accessed April 2020

⁷ Forbes Insights & J.P. Morgan, 2019: Payments' Potential survey

⁸ Forbes Insights & J.P. Morgan, 2019: Payments' Potential survey

⁹ Forbes Insights & J.P. Morgan, 2019: Payments' Potential survey

¹⁰ Forbes Insights & J.P. Morgan, 2019: Payments' Potential survey

¹¹ J.P. Morgan, 2019: Is Your Treasury Ready For The E-commerce Revolution? Accessed April 2020

¹² Forbes, 2019: How Amazon Is Disrupting European E-commerce; Accessed April 2020

¹³ J.P. Morgan, 2019: Is Your Treasury Ready For The E-commerce Revolution? Accessed April 2020

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